

PLAINTREE SYSTEMS INC.

NOTICE TO READER

February 22, 2018

**Refiling of Unaudited Interim Consolidated Financial Statements for the nine months ended December 31, 2017 – Corrected Financial Statements Notes**

The unaudited interim consolidated financial statements of the Company for the nine-months ended December 31, 2017 (the "Consolidated Financial Statements") appended hereto are being refiled in order to include:

- (i) a corrected note 11 - Due to Related Parties ; and
- (ii) a correction to Related Parties Section in the Management Discussion and Analysis.
- (iii) a correction to the balance of Equity (deficit) as at December 31, 2016

After filing the Consolidated Financial Statements on February 21, 2018, it was identified that the note and chart were incomplete. The Consolidated Financial Statements appended hereto includes the corrected Notes. These were the only amendments to the Consolidated Financial Statements.

No changes have been made to the statements making up the Consolidated Financial Statements or any of the other Notes thereto.

This notice does not form part of the Consolidated Financial Statements.

"David Watson"

David Watson  
CEO

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# PLAINTREE SYSTEMS INC.

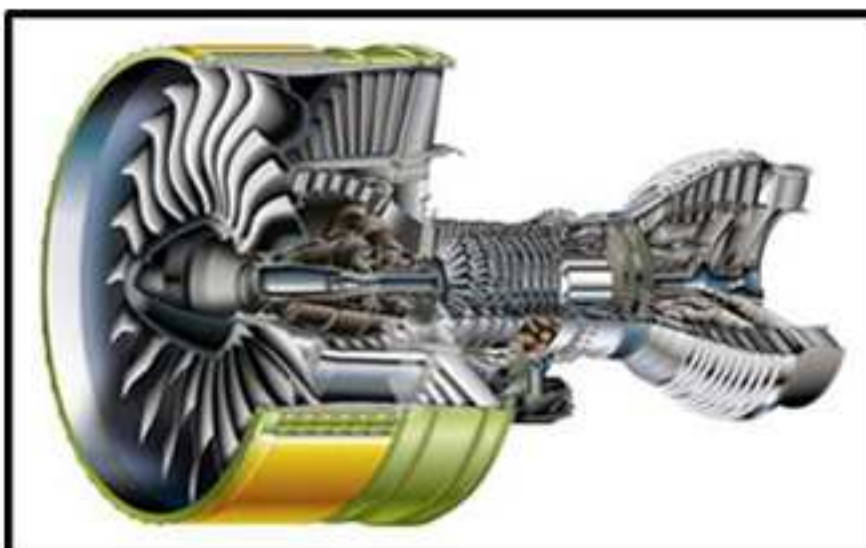
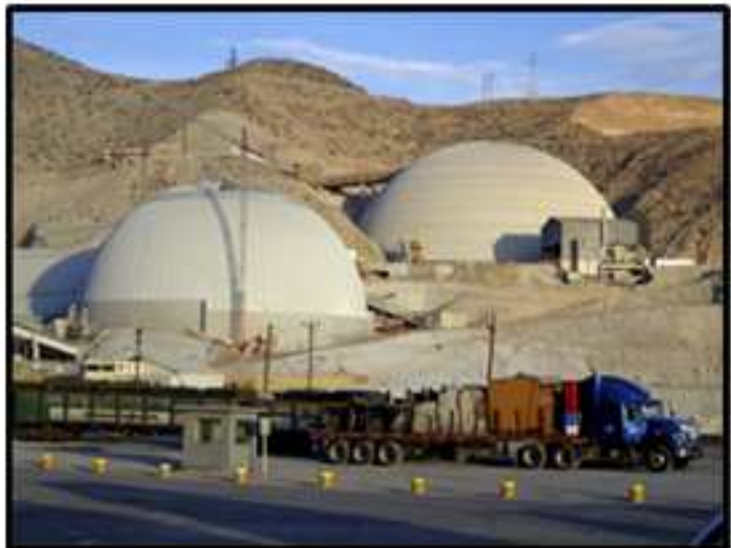
TRIODETC

MADAWASKA DOORS

SPOTTON

HYPERNETICS

SUMMIT AEROSPACE



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Q3-2018 for the three and nine months ending  
December 31, 2017

## **“Notice to Reader”**

The accompanying unaudited interim consolidated financial statements of Plaintiff Systems Inc. for the three and nine months ended December 31, 2017 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: February 14, 2018

“David Watson”

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David Watson  
CEO

## Plaintree Systems Inc.

Consolidated statements of financial position  
as at December 31, 2017 and March 31, 2017  
(unaudited)  
(in Canadian dollars)

	December 31, 2017	March 31, 2017
	\$	\$
<b>Assets</b>		
Current assets		
Trade receivables and other receivables	4,909,029	2,460,517
Unbilled revenue	184,431	244,299
Inventories (Note 5)	1,772,214	1,766,655
Assets classified as held for sale (Note 4)	-	10,686
Prepaid expenses and other receivables	72,344	77,785
	<b>6,938,018</b>	<b>4,559,942</b>
Property, plant and equipment (Note 6)	4,696,703	5,126,448
Intangible assets (Note 7)	561,359	655,713
	<b>12,196,080</b>	<b>10,342,103</b>
<b>Liabilities</b>		
Current liabilities		
Cash deficit	1,119,642	324,566
Trade and other payables	1,647,113	3,769,957
Deferred revenue	2,215,186	479,572
Current portion of long-term debt - bank (Note 8)	1,148,831	1,660,149
Current portion of long-term debt - other (Note 8)	45,000	-
Current portion of due to related parties (Note 11)	554,447	-
Current portion of deferred government assistance (Note 10)	19,000	19,000
Current portion of obligations under lease capital (Note 9)	139,508	139,508
Current portion of government assistance (Note 10)	39,000	39,000
	<b>6,927,728</b>	<b>6,431,752</b>
Long-term debt - other (Note 8)	92,925	-
Deferred government assistance (Note 10)	88,010	108,058
Obligations under lease capital (Note 9)	316,011	438,169
Repayable government assistance - other (Note 10)	574,503	643,509
Due to related parties (Note 11)	5,565,044	5,835,109
	<b>13,564,220</b>	<b>13,456,597</b>
<b>Shareholders' equity</b>		
Issued capital	2	2
Contributed surplus	2,090,750	2,090,750
Deficit	(3,458,892)	(5,205,246)
	<b>(1,368,140)</b>	<b>(3,114,494)</b>
	<b>12,196,080</b>	<b>10,342,103</b>

Approved by the Board

"David Watson"

"Girvan Patterson"

## Plaintree Systems Inc.

Condensed consolidated interim statements of comprehensive income  
three and nine months ended December 31, 2017 and December 31, 2016

(unaudited)

(in Canadian dollars)

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2016
	\$	\$	\$	\$
<b>Revenue</b>	<b>4,461,762</b>	3,057,288	<b>12,488,416</b>	10,033,364
Cost of sales	<b>3,028,558</b>	2,564,469	<b>8,672,752</b>	8,352,694
Gross margin	<b>1,433,204</b>	492,819	<b>3,815,664</b>	1,680,670
Operating expenses				
Research and development	<b>331,420</b>	276,160	<b>947,357</b>	904,509
Finance and administration	<b>388,007</b>	247,497	<b>996,731</b>	718,413
Sales and marketing	<b>119,145</b>	130,307	<b>424,213</b>	480,864
Loss on disposal of assets	-	-	-	15,475
Interest expense	<b>105,697</b>	70,249	<b>255,672</b>	189,607
(Gain) loss on foreign exchange	<b>(36,970)</b>	31,133	<b>(12,101)</b>	52,713
	<b>907,299</b>	755,346	<b>2,611,872</b>	2,361,581
<b>Net earnings (loss) from operations</b>	<b>525,905</b>	(262,527)	<b>1,203,792</b>	(680,911)
<b>Other income (loss)</b>	<b>291,370</b>	(301,196)	<b>542,562</b>	(358,960)
<b>Net earnings (loss) and comprehensive earnings (loss)</b>	<b>817,275</b>	(563,723)	<b>1,746,354</b>	(1,039,871)
Basic and diluted earnings (loss) per common share	<b>0.03</b>	(0.07)	<b>0.05</b>	(0.17)
Weighted average common shares outstanding	<b>12,925,253</b>	12,925,253	<b>12,925,253</b>	12,925,253

# Plaintree Systems Inc.

Consolidated statements of cash flows (unaudited)  
for the nine months ended December 31, 2017  
(unaudited)  
(in Canadian dollars)

	December 31, 2017	December 31, 2016
	\$	\$
<b>Cash flows from operating activities</b>		
Net income (loss)	1,203,792	(680,910)
Items not affecting cash:		
Other income from discontinued operations (Note 4)	542,562	(358,960)
Depreciation of intangible assets	102,975	102,338
Depreciation of property, plant and equipment	677,320	722,213
Loss on sale of property, plant and equipment	-	6,475
Changes in non-cash operating working capital items		
Trade and other receivables	(2,448,512)	574,598
Unbilled revenue	59,868	(775,620)
Inventories	(5,559)	(37,299)
Prepaid expenses and other receivables	5,441	(47,685)
Trade and other payables	(2,122,845)	801,996
Deferred revenue	1,735,614	(155,969)
Cash (used in) provided by operations	(249,344)	151,177
<b>Investing activities</b>		
Payments to acquire intangible assets	(8,621)	-
Payments to acquire property, plant and equipment	(259,989)	(687,278)
Proceeds from disposal of property, plant and equipment	23,100	15,396
Cash used in investing activities	(245,510)	(671,882)
<b>Financing activities</b>		
Repayment of government assistance	(89,054)	(16,725)
Repayment of long-term debt	(530,205)	(744,286)
Repayment of capital lease obligations	(122,158)	
Increase in borrowings	156,813	496,939
Increase in related party borrowings (Note 11)	284,382	(88,639)
Cash (used in) financing activities	(300,222)	(352,711)
Net cash inflow	(795,076)	(873,416)
(Bank Indebteness) (beginning of the year)	(324,566)	(4,576)
(Bank indebtedness), end of the year	(1,119,642)	(877,992)

Consolidated statements of changes in equity  
for the periods ended December 31, 2017 and December 31, 2016  
(unaudited)

	Number of common shares	Issued capital \$	Numer of Class A preferred shares (1)	Issued capital \$	Contributed surplus \$	Equity (deficit) \$	Shareholders' equity (deficiency) \$
Balances, March 31, 2016	12,925,253	1	18,325	1	2,090,750	(2,565,612)	(474,860)
Net loss and comprehensive loss	-	-	-	-	-	(1,039,870)	(1,039,870)
<b>Balances, December 31, 2016</b>	<b>12,925,253</b>	<b>1</b>	<b>18,325</b>	<b>1</b>	<b>2,090,750</b>	<b>(3,605,482)</b>	<b>(1,514,730)</b>
Balances, March 31, 2017	12,925,253	1	18,325	1	2,090,750	(5,205,246)	(3,114,494)
Net earnings and comprehensive earnings	-	-	-	-	-	1,746,354	1,746,354
<b>Balances, December 31, 2017</b>	<b>12,925,253</b>	<b>1</b>	<b>18,325</b>	<b>1</b>	<b>2,090,750</b>	<b>(3,458,892)</b>	<b>(1,368,140)</b>

<sup>(1)</sup> Class A shares have a 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends; non-voting

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016  
(unaudited)  
(In Canadian dollars)

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## 1. DESCRIPTION OF THE BUSINESS

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division [the Hypernetics business, Summit Aerospace USA Inc. ("Summit Aerospace")] and a Specialty Structures division (the Triodetic business), Spotton Corp. and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design, aerospace and telecommunications. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial, oil and gas markets. Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and materials. Until June 2017 the Speciality Structures division included Arnprior Fire Trucks Corp. ("AFTC"). On June 6, 2017, the Company announced that it had completed the sale of assets and business of AFTC.

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

## 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

The condensed consolidated unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issue by the Board of Directors on February 14, 2018. The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the accounting policies disclosed below. These statements should be read in conjunction with the audited financial statements and notes included in the Annual Report for the year ended March 31, 2017.

### (b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for share-based compensation, which is measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

### (c) Basis of Consolidation

The consolidated financial statements include the accounts of Plaintree Systems Inc. and its wholly-owned subsidiaries: Summit Aerospace USA Inc. and Triodetic Inc. (American companies), Spotton Corp. (Canadian company), Arnprior Fire Trucks Corp., and Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that



# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016

(unaudited)

(In Canadian dollars)

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control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All intercompany transactions have been eliminated.

(d) Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at December 31, 2017, the Company had an accumulated deficit of \$3,458,891 and, for the period then ended, the Company had comprehensive earnings of \$1,746,353. As at December 31, 2017, the Company had working capital of \$10,290 and \$NIL cash on hand. These material uncertainties may cast doubt upon the Company's ability to continue as a going concern. However, due to the recent improvement in the financial performance of the Company, management is reviewing whether the going concern note remains appropriate and whether it should be removed from future statements.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the next twelve month period following December 31, 2017. The Company has in place a credit facility of up to \$2,100,000 through its bank based on acceptable trade receivables and inventory. The availability of the credit facility to the Company as at December 31, 2017 was \$2,100,000 of which \$360,292 was in use and a letter of credit in the amount of US\$287,200 (CAD\$360,292) leaving \$1,739,708 available. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed, and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months. However, should (i) the Company's bank credit facility fail to be available or fail to have sufficient availability to meet the Company's cash requirements; (ii) forecasts fall short of expectations in one or more of the Company's divisions; and/or (iii) any unanticipated unprofitable event occurs, this will impact the Company's ability to generate sufficient cash to meet its requirements and this will impact its ability to continue as a going concern. The Company would then implement a strategic review of its portfolio of companies to maximize shareholders value.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments, if required, may be material.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these condensed consolidated interim, financial statements are unchanged from those disclosed in the Company's 2017 annual consolidated financial statements and have been applied to the periods presented in these condensed consolidated interim financial statements.

*New and revised IFRS in issue but not yet effective*

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

*New Standards effective April 2018*

IFRS 9: Financial instruments

Issued in July 2014, IFRS 9 replaces IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended December 31, 2017 and December 31, 2016

(unaudited)

(In Canadian dollars)

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instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and based on its assessment to date, Management is of the view that the implementation of this standard will have no significant impact.

#### IFRS 15: Revenue from contracts with customers

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Adoption of this IFRS is mandatory for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and Management's preliminary assessment indicates only modest increases in unbilled revenues and product revenue due to the standard resulting in no change, after adoption of IFRS 15, to the Company's largest contributor's revenue and cash flows current reporting.

#### IFRS 16: Leases

Issued in January 2016, IFRS 16 Introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and Management's preliminary assessment is that the implementation of the standard will have no significant impact.

#### **4. DISCONTINUED BUSINESS**

On May 25, 2017, the Company completed the sale of the assets and business of Arnprior Fire Trucks Corp ("AFTC") (the "Fire Truck Business") to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles ("Eastway"). The Company and Eastway entered into an asset purchase agreement (the "Purchase Agreement"), pursuant to which Eastway agreed to acquire the Fire Truck Business from the Company as a going concern. The purchase price paid by Eastway consisted of nominal cash consideration and the obligation for Eastway to complete the outstanding existing fire truck contracts. Eastway has also agreed to a lease the Company's premises to carry on the business for a one-year period. Following the closing of the transaction, the Company ceased the operations of the Fire Trucks Business. The balance of \$10,686 in fiscal 2017 related to the carrying value of subsequently sold assets. Other Income in the amount of \$542,562 refers to debt balances retired by the Company at time of discontinuance of business pertaining to deferred income and trade payables.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016  
(unaudited)

(In Canadian dollars)

## 5. INVENTORIES

	December 31, 2017	March 31, 2017
	\$	\$
Raw materials	749,120	984,341
Work in process	810,166	595,782
Finished goods	212,928	186,532
	<b>1,772,214</b>	<b>1,766,655</b>

The cost of inventories recognized as an expense during the nine month period was \$8,635,060 (December 31, 2016 - \$8,315,222). The total carrying value of inventory at December 31, 2017 was pledged as security through general security agreements under bank lines of credit and related party liabilities.

## 6. PROPERTY, PLANT AND EQUIPMENT

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance as of								
March 31, 2017	2,367,871	25,204	4,523	72,251	1,055,157	1,326,012	275,431	5,126,448
Additions	185,815	3,597	-	686	69,890	-	-	259,989
Disposal	(11,750)	-	(664)	-	-	-	-	(12,414)
Depreciation	(409,177)	(8,304)	(840)	(30,737)	(153,078)	(75,185)	-	(677,320)
December 31, 2017	2,132,759	20,498	3,020	42,200	971,969	1,250,827	275,431	4,696,703

## 7. INTANGIBLES

	Customer relationship	Non-competition agreement	Computer software	Total
	\$	\$	\$	\$
March 31, 2017	651,635	2,307	1,771	655,713
Additions	-	-	8,621	8,621
Depreciation	(97,745)	(1,154)	(4,076)	(102,975)
December 31, 2017	553,890	1,153	6,316	561,359

## 8. LONG-TERM DEBT

As of December 31, 2017, the Company was in breach of its current ratio covenant under its bank facilities which ratio was required to be maintained at a minimum of 125%. As a result of the covenant breach, the long-term debt has been reclassified to current. The bank has waived the covenant requirements to April 30, 2018, and has continued to provide funding under the terms of its banking facility.

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements For the Quarters ended December 31, 2017 and December 31, 2016

(unaudited)

(In Canadian dollars)

	December 31, 2017	March 31, 2017
	\$	\$
<b>Long-term debt - bank</b>		
Bank loan bearing interest at a rate equal to the bank's LIBOR Rate plus 3.93%, due in monthly principal installments of \$4,028 secured by a general security agreement, matures May 2020	631,606	717,776
Bank loan bearing interest at a rate of prime plus 1.25% per annum, payable in monthly principal plus interest installments of \$4,221, secured by a general security agreement, maturing March 2035	194,185	225,558
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022	45,584	53,013
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by general security agreement, maturing five years from the date of each draw-down or October 2021	172,398	203,177
Demand non-revolving loan, interest only monthly payments at a rate of prime plus 2.00%, secured by general security agreement, payable on demand maturing five years from date of advance	100,000	100,000
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by a general security agreement, maturing ten years following full draw-down of the loan or June 2016	5,058	57,633
Demand non-revolving loan payable in monthly installments of US\$36,957, interest at LIBOR plus 3.00% per annum, maturing September 2017	-	245,742
Demand non-revolving loan payable in monthly blended installments of \$9,906, interest at a rate of 3.63%, secured by a general security agreement, maturing June 2017	-	34,830
Term non-revolving loan payable in monthly installments of \$3,161, bearing interest at the rate of prime plus 1.25% per annum, maturing March 2025	-	22,420
	<b>1,148,831</b>	1,660,149
<b>Total Bank Debt - current portion</b>	<b>(1,148,831)</b>	1,660,149
	-	-
<b>Long-term debt - other</b>		
Commercial equipment loan bearing interest at a rate of 7% per annum, payable in monthly principal plus interest installments of \$2,959 USD, maturing June 2021.	137,925	-
Current portion	45,000	-
	<b>92,925</b>	-

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016

(unaudited)

(In Canadian dollars)

## 9. OBLIGATIONS UNDER CAPITAL LEASE

	December 31, 2017	March 31, 2017
		\$
Capital lease payable in monthly installments of \$639, bearing interest at 2.49% per annum, maturing October 2019.	13,726	19,163
Capital lease payable in monthly installments of \$1,205, bearing interest at 5.094% per annum, maturing January 2020.	27,358	36,734
Capital lease payable in monthly installments of \$6,899 USD, bearing interest at 4.50% per annum, maturing October 2021.	365,106	455,277
Capital lease payable in monthly installments of \$2,158, bearing interest at 5.094% per annum, maturing July 2018.	49,329	66,503
	455,519	577,676
Current portion	139,508	139,508
	316,011	438,169

## 10. LONG-TERM DEBT – GOVERNMENT ASSISTANCE

The Company's Summit Aerospace USA Inc. division accepted a loan of \$720,000 USD (\$898,560 CND) from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA, purchased in May 2013. Monthly repayments are amortized over fifteen years at a fixed rate of 1.5%. The loan facility is for a term of seven years, funding 45% of the cost of the building, land and renovations.

The Company records the government loan at its estimated fair value at the date in which the payments are recorded. The estimated fair value of the loan payable is determined by discounting future cash flows associated with the loan at a discount rate which represents the estimated borrowing rate to the Company. The difference between the face value of the loan and the estimated fair value is deemed to be government assistance. The loan payable is accreted to the face value over the term of the loan and is recognized as accretion expense.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016  
(unaudited)  
(In Canadian dollars)

	Loan present value	Deferred Government Assistance	Repayable government assistance
	\$	\$	\$
Opening Balance	682,509	127,058	809,567
Loan adjustment for exchange	(38,696)	(8,565)	(47,261)
Repayments	(43,155)	1,362	(41,793)
Accretion	12,845	(12,845)	-
December 31, 2017	613,503	107,010	720,513
Current Portion	(39,000)	(19,000)	(58,000)
Balance	574,503	88,010	662,513

## 11. DUE TO RELATED PARTIES

	December 31, 2017	March 31, 2017
	\$	\$
Due to senior officers	4,330,590	4,450,665
Dividends payable	60,000	60,000
Due to Targa Group Inc., convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	747,073	228,616
Due to Targa Group Inc., demand loan	66,581	66,581
Due to Targa Group Inc., line of credit	532,763	646,763
Due to Targa Group Inc., demand loan interest	134,812	134,812
	<b>6,119,491</b>	5,835,109
Less: current portion	554,447	-
	<b>5,565,044</b>	5,835,109

As at December 31, 2017, a balance of \$4,330,590 (\$3,094,956 principal and \$1,235,634 interest) – (March 31, 2017 - \$4,450,665) remained owing to senior officers of the Company. On April 1, 2016, senior officers agreed to cancel their current consulting agreements and discontinue interest payments accruing on balances as of April 1, 2016. During the nine months ended December 31, 2017 a total of \$120,075 has been paid to the senior officers. Balances are classified as long-term as the parties have agreed not to demand repayment before March 2019.

On July 14, 2011, the board of directors of the Company declared a cash dividend of \$10.91405 per Class A preferred share (\$200,000 in the aggregate) payable on July 22, 2011 to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred share. An amount of \$60,000 (March 31, 2017 - \$60,000) of the dividend remains outstanding as of

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements For the Quarters ended December 31, 2017 and December 31, 2016 (unaudited)

(In Canadian dollars)

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December 31, 2017. The balance is classified as long-term as the related party has agreed not to demand payment before March 2019.

As at December 31, 2017, a balance of \$247,672 (March 31, 2017 - \$247,672) of the due to related parties is convertible into common shares of the Company at a rate of \$0.0115 at the option of Targa). The balance is classified as long-term as the related party has agreed not to demand payment before March 2019.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to \$174,974 (March 31, 2017 - \$174,974). The Company accepted partial financing in the form of a note payable in the amount of \$373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at December 31, 2017 a balance of \$254,767 remains outstanding. Loans totaling \$420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014 with the acquisition of Spotton Corp by the Company. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest was at bank prime plus 2% and accrued on the principal balance for a balance of \$182,889 as of December 31, 2017 (March 31, 2017 - \$182,889). The party has agreed not to demand repayment of the total balance of \$192,626 (March 31, 2016 - \$228,616) before March 2019 and the amount is classified as long-term.

On May 31, 2017, Tidal refinanced it's approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintree has guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. The loan to the Company has a one (1) year term and bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity.

The Company has a demand loan of up to \$1,800,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. At December 31, 2017 \$NIL, (March 31 2016 - \$NIL) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2017 - \$66,581) for a balance of \$66,581 (March 31, 2017 - \$66,581). The balance is classified as long-term as the related party has agreed not to demand payment before March 2019.

The Company has a revolving Line of Credit of up to \$1,000,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. At December 31, 2017, \$290,165 (March 31, 2017 - \$408,165) remained outstanding on the Line of Credit with accumulated interest of \$242,598 (March 31, 2017 - \$242,598) for a balance of \$532,763 (March 31, 2017 - \$646,763). Targa has agreed that it will not demand repayment before March 2019 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2017 - \$134,812), on a loan from Targa remains outstanding as of September 30, 2017. The party has agreed not to demand repayment before March 2019 and, accordingly, the amount is classified as long-term.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016  
(unaudited)

(In Canadian dollars)

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## 12. SHARE CAPITAL

### Authorized

Unlimited number of common shares  
Unlimited number of Class A preferred shares

Class A 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends; liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As at December 31, 2017 the accrued and unpaid dividends on the Class A Preferred Shares were \$13,493,500.

### Issued

Common shares	12,925,253
Class A Preferred shares	18,325

On July 14, 2011, the Board of Directors of the Company approved a reduction to the stated capital account of \$97,844,650 (the "Stated Capital Reduction Amount"). At the Company's Annual General Meeting held on September 15, 2011, the shareholders of the Company voted in favour of the Stated Capital Reduction. The effect of the reduction was to reduce the stated capital and the accumulated deficit of the Company by the same amount. The accumulated deficit of the Company represents primarily the Company's business prior to the completion of the merger with Hypernetics and Triodetic and is not reflective of the post-merger business of the Company.

### *Stock option plans*

The Company's Stock Option Plan allows the Company to grant options to officers and service providers to a maximum number of 1,200,000.

Options under the stock option plans are issued for a period as determined by the Board of Directors of the Company at the time of grant up to a period of ten years from the date of grant and the exercise price may not be less than the latest closing price of the common shares on the last trading day preceding the date of grant. Eligibility is determined by the Company's Board of Directors and the aggregate number available for issuance to any one person may not exceed 5% of the issued and outstanding common shares.

There are no stock options outstanding as of December 31, 2017.



# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016  
(unaudited)

(In Canadian dollars)

## 13. BASIC AND DILUTED EARNINGS PER COMMON SHARE

	Three Months December 31, 2017	Three Months December 31, 2016
	\$	\$
Net Income (loss)	817,275	(563,723)
Cumulative dividends on preferred shares - three months	(366,500)	(366,500)
Net income (loss) attributable to common shares (basic and diluted)	450,775	(902,835)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings (loss) per share	0.03	(0.07)

	Nine Months December 31, 2017	Nine Months December 31, 2016
	\$	\$
Net Income (loss)	1,746,354	(1,039,871)
Cumulative dividends on preferred shares - nine months	(1,099,500)	(1,099,500)
Net income (loss) attributable to common shares (basic and diluted)	646,854	(2,139,371)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings (loss) per share	0.05	(0.17)

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended December 31, 2017 and December 31, 2016  
(unaudited)

(In Canadian dollars)

## 14. BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products. The Company determines the geographic location of revenues based on the location of its customers.

### Revenues by division

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Electronics	1,343,421	1,606,831	4,499,671	4,628,647
Specialty structures	3,118,341	1,450,457	7,988,745	5,404,717
	<u>4,461,762</u>	<u>3,057,288</u>	<u>12,488,416</u>	<u>10,033,364</u>

### Net income (loss) before taxes by division

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Electronics	175,016	86,070	536,665	228,156
Specialty structures	642,259	(649,793)	1,209,689	(1,268,027)
	<u>817,275</u>	<u>(563,723)</u>	<u>1,746,354</u>	<u>(1,039,871)</u>

### Revenues by geographical location

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Canada	1,766,453	1,038,018	5,726,485	4,275,786
United states	1,364,365	2,018,326	5,180,679	5,693,675
Argentina	768,884	-	921,140	-
Other	562,060	944	660,112	63,903
	<u>4,461,762</u>	<u>3,057,288</u>	<u>12,488,416</u>	<u>10,033,364</u>

### Product revenue concentration (customers with revenues in excess of 10% of sales)

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Number of customers	2	1	-	1
% of total revenue	16%, 17%	15%	-	12%

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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## PLAINTREE SYSTEMS INC.

*For the three and nine months ended December 31, 2017 and December 31, 2016*

**Date – February 14, 2018**

The following discussion and analysis is the responsibility of management and has been reviewed by the Audit Committee of Plaintiff Systems Inc (“Plaintree” or the “Company”) and approved by the Board of Directors of Plaintiff. The Board of Directors carries out its responsibilities for the financial statements and management’s discussion and analysis principally through the Audit Committee, which is comprised exclusively of independent directors.

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintiff is for the three and nine months ended December 31, 2017. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standards (“IFRS”). The information contained herein is dated as of February 14, 2018 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

W. David Watson II, President and Chief Executive Officer, and Lynn E. Saunders, Chief Financial Officer, in accordance with National Instrument 52-109 (“NI52-109”), have both certified that they have reviewed the annual financial statements and this MD&A (“the annual Filings”) and that, based on their knowledge having exercised reasonable diligence, (a) the annual Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the annual filings; and (b) the annual financial statements together with the other financial information included in the annual Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the dates and for the periods presented in the annual Filings.

Investors should be aware that the inherent limitations on the ability of certifying officers of a venture issuer to design and implement, on a cost effective basis, Disclosure Controls and Procedures and Internal Controls over Financial Reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### ***Caution Regarding Forward Looking Information***

*This MD&A of the Company contains certain statements that, to the extent not based on historical events, are forward-looking statements based on certain assumptions and reflect Plaintiff’s current expectations. Forward-looking statements include, without limitation, statements evaluating market and general economic conditions, and statements regarding growth strategy and future-oriented project revenue, costs and expenditures. Actual results could differ materially from those projected and should not be relied upon as a prediction of future events. A variety of inherent risks, uncertainties and factors, many of which are beyond Plaintiff’s control, affect the operations, performance and results of Plaintiff and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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*risks, uncertainties and factors include the impact or unanticipated impact of: companies evaluating Plaintiff's products delaying purchase decisions; current, pending and proposed legislative or regulatory developments in the jurisdictions where Plaintiff operates; change in tax laws; political conditions and developments; intensifying competition from established competitors and new entrants in the industry; technological change; currency value fluctuation; general economic conditions worldwide, including in China; Plaintiff's success in developing and introducing new products and services, expanding existing distribution channels, developing new distribution channels and realizing increased revenue from these channels. This list is not exhaustive of the factors that may affect any of Plaintiff's forward-looking statements. Plaintiff undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise. Readers are cautioned not to put undue reliance on forward-looking statements. Readers should also carefully review the risks concerning the business of the Company and the industries in which it operates generally described in the documents filed from time to time with Canadian securities regulatory authorities.*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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### **Overview**

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division [the Hypernetics business, Summit Aerospace USA Inc. ("Summit Aerospace")] and a Specialty Structures division (the Triodetic business), Spotton Corp. and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design, aerospace and telecommunications. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial, oil and gas markets. Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and materials. Until June 2017 the Speciality Structures division included Arnprior Fire Trucks Corp. ("AFTC"). On June 6, 2017, the Company announced that it had completed the sale of assets and business of AFTC.

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

### **Recent Developments**

During May 2017, the Company obtained a loan in the amount of \$554,447 from Tidal Quality Management Corporation ("Tidal"), a related party controlled by the Company's Chief Executive Officer. The loan has a one (1) year term and bears interest at a rate of 14% pa. Interest is payable monthly, and the principal is due on maturity.

In a related transaction, the Company also guaranteed a \$900,000 loan obtained by Tidal. The loan has a one (1) year term and bears interest at a rate of 14% pa. Interest is payable monthly, and the principal is due on maturity. This loan was used to fund the loan from Tidal to Plaintree described in the paragraph above. The Company granted a security interest over its assets as security for the guarantee.

Pursuant to an asset purchase agreement dated May 25, 2017, the Company sold its fire and emergency vehicle business, formerly carried on by its wholly-owned subsidiary AFTC, to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles ("Eastway"). The purchase price paid by Eastway consisted of nominal cash consideration paid on closing and the obligation for Eastway to complete the outstanding existing fire truck contracts. Eastway has also agreed to a lease the Company's premises to carry on the business for a one year period. The Company has ceased operations of AFTC.

The Company's common shares are quoted on the CSE under symbol "NPT" in Canada.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Control Activities*

There was no change in the Company's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to material affect its internal control over financial reporting.

### **Selected Annual Financial Information**

The Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with IFRS. The following table sets forth selected financial information from the Company's interim financial statements:

*(\$000s, except per share amounts)*

	December 31, 2017	March 31, 2017
	\$	\$
Total assets	12,196	10,342
Total liabilities	13,564	13,457
Long-term liabilities	6,636	7,025
Cash dividends declared per share	nil	nil

*(\$000s, except per share amounts)*

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Revenue	4,462	3,057	12,488	10,033
Net income (loss) and total comprehensive income (loss)	817	(564)	1,746	(1,040)
Net loss attributed to common shareholders	451	(930)	647	(2,139)
Basic and diluted (loss) earnings per Share	0.03	(0.07)	0.05	(0.17)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations

	Plaintree Systems Inc. (\$000s, except per share and % amounts) for the three months ended		Change from
	December 31, 2017	December 31, 2016	2016 to 2017
	\$	\$	\$
Revenue	4,462	3,057	1,405
Cost of sales	3,029	2,564	465
Gross margin	1,433	493	940
	32%	16%	
<i>Operating expenses:</i>			
Research and development	331	276	55
Finance and administration	388	248	140
Sales and marketing	119	130	(11)
Interest expense	106	70	36
Loss on foreign exchange	(37)	31	(68)
Net income (loss) before other income (income)	907	755	152
Other income (loss) from discontinued operations	526	(263)	788
Net earnings (loss) and comprehensive earnings (loss)	291	(301)	592
	817	(564)	1,381

	Plaintree Systems Inc. (\$000s, except per share and % amounts) for the nine months ended		Change from
	December 31, 2017	December 31, 2016	2016 to 2017
	\$	\$	\$
Revenue	12,488	10,033	2,455
Cost of sales	8,673	8,353	320
Gross margin	3,815	1,681	2,135
	31%	17%	
<i>Operating expenses:</i>			
Research and development	947	904	43
Finance and administration	997	718	279
Sales and marketing	424	481	(57)
Loss on disposal of assets	-	15	(15)
Interest expense	256	190	66
Loss on foreign exchange	(12)	53	(65)
Net income (loss) before other income (income)	2,612	2,361	251
Other income (loss) from discontinued operations	1,203	(681)	1,884
Net earnings (loss) and comprehensive earnings (loss)	543	(359)	902
	1,746	(1,040)	2,786

(1) December 31, 2016 adjusted for discontinued operations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products. The Company determines the geographic location of revenues based on the location of its customers. Where applicable the revenues and losses for the discontinued business of Arnprior Fire Trucks Corp. have been removed from the 2017 comparisons.

#### Revenues by division

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Electronics	1,343,421	1,606,831	4,499,671	4,628,647
Specialty structures	3,118,341	1,450,457	7,988,745	5,404,717
	<u>4,461,762</u>	<u>3,057,288</u>	<u>12,488,416</u>	<u>10,033,364</u>

#### Net income (loss) before taxes by division

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Electronics	175,016	86,070	536,665	228,156
Specialty structures	642,259	(649,793)	1,209,689	(1,268,027)
	<u>817,275</u>	<u>(563,723)</u>	<u>1,746,354</u>	<u>(1,039,871)</u>

#### Revenues by geographical location

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Canada	1,766,453	1,038,018	5,726,485	4,275,786
United states	1,364,365	2,018,326	5,180,679	5,693,675
Argentina	768,884	-	921,140	-
Other	562,060	944	660,112	63,903
	<u>4,461,762</u>	<u>3,057,288</u>	<u>12,488,416</u>	<u>10,033,364</u>

#### Product revenue concentration (customers with revenues in excess of 10% of sales)

	For the three months ended		For the nine months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Number of customers	2	1	-	1
% of total revenue	16%, 17%	15%	-	12%



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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### **Revenues**

#### Revenue

Total product revenue for three and nine months ended December 31, 2017 was \$4,461,762 and \$12,488,416 compared to \$3,057,288 and \$10,033,364 (discontinued Armprior Fire Truck Corp business removed) for the respective periods ending December 31, 2016.

Plaintree has two diversified business divisions: Specialty Structures and Electronics.

Plaintree's Electronics Division revenues of \$1,343,421 and \$4,499,671 in the three and nine months ended December 31, 2017 down from revenues of \$1,606,831 and \$4,628,647 for the three and nine months ended December 31, 2016.

Plaintree's Specialty Structures Division revenue increased to \$3,118,341 and \$7,988,745 in the three and nine months ended December 31, 2017 from \$1,450,457 and \$5,404,717 in the three and nine months ended December 31, 2017 and December 31, 2016 respectively.

### **Gross Margin**

Total gross margin increased in the first three and nine months of fiscal 2018 to 32% and 31% from 16% and 17% for the same period in fiscal 2017.

### **Operating Expenses**

#### **Research and development expenses**

Research and development expenses were \$331,420 and \$947,357 for the three and nine months ending December 31, 2017 compared to \$276,160 and \$904,509 for the three and nine months ending December 31, 2016. Research and development expenditures consist primarily of development engineering and personnel expenses.

Research and development expenses are expected to remain at comparable levels throughout fiscal 2018.

#### **Finance and administration expenses**

Finance expenses were \$388,007 and \$996,731 for the three and nine months ending December 31, 2017 compared to \$247,497 and \$718,413 for the three and nine months ending December 31, 2016. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities. Amortization of intangibles related to the business of Summit Aerospace is the primary reason for the increase in finance and administration expenses.

Finance and administration expenses were higher in fiscal 2018 due to legal fees associated with the new financing and sale of the discontinued operations.

#### **Sales and marketing expenses**

Sales and marketing expenses were \$119,145 and \$424,213 for the three and nine months ending December 31, 2017 compared to \$130,307 and \$480,864 for the three and nine months ending December 31, 2016. These expenses consisted primarily of personnel and related costs associated

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

with Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Sales and marketing expenses are expected to remain at comparable levels throughout fiscal 2018.

### **Interest expense**

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were \$105,697 and \$255,672 for the three and nine months ending December 31, 2017 compared to \$70,249 and \$189,607 for the three and nine months ending December 31, 2016. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest. The related parties with loans to the company have agreed to discontinue interest payments accruing on balances as of April 1, 2016 with the exception of the newly acquired financing from Tidal. The Company has accepted a loan \$554,447 which has a one (1) year term and bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity.

### **Gain on foreign exchange**

The Company reported (gains) on foreign exchange of \$(36,970) and \$(12,101) for the three and nine months ending December 31, 2017 compared to loss of \$31,133 and \$52,713 for the three and nine months ending December 31, 2016. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

### **Net earnings (loss), Comprehensive earnings (loss) and Net earnings (loss) Attributable to Common Shareholders**

Net income and comprehensive income for the three and nine months ended December 31, 2017 was \$450,755 and \$646,854 respectively compared to a net (loss) of \$(902,835) and \$(2,139,371) for the three and nine months ended December 31, 2016. Net income attributed to common shareholders is calculated by reducing net income by the \$1,466,000 (QTD = \$366,500, YTD = \$1,099,500) cumulative dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the \$18,325,000 for the Class A preferred shares and as December 31, 2017 the accrued and unpaid dividends on the Class A preferred shares were \$13,493,500 (March 31, 2017 - \$12,394,000).

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Quarterly Results

The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2018, 2017 and 2016:

#### Quarters ended

(unaudited, in \$000s except per share data)

	Dec 31 2017 Q3-2018	Sept 30 2017 Q2-2018	June 30 2017 Q1-2018	Mar 31 2017 Q4-2017	Dec 31 2016 Q3-2017	Sept 30 2016 Q2-2017	June 30 2016 Q1-2017	Mar 31 2016 Q4-2016
Revenue (1)	\$ 4,462	\$ 4,410	\$ 3,617	\$ 2,811	\$ 3,057	\$ 3,543	\$ 3,433	\$ 3,738
Net profit (loss) and total comprehensive income (loss)	817	576	352	(1,600)	(564)	(327)	(149)	(224)
Net profit (loss) attributed to common shareholders	451	210	(14)	(1,894)	(930)	(693)	(589)	(591)
Basic and diluted earnings (loss) per share	0.03	0.02	(0.00)	(0.15)	(0.07)	(0.05)	(0.05)	(0.05)

(1) Revenue of discontinued operations from Arnrior Fire Trucks has been removed in the four quarters of 2017.

### Liquidity and Capital Resources

(\$000s)

	December 31, 2017	March 31, 2017	Change
	\$	\$	\$
Bank indebtedness	(1,120)	(325)	(795)
Working Capital	10	(1,872)	1,882

	For the nine months ended December 31, 2017	For the nine months ended December 31, 2016	Change
<i>Net cash (used in) provided by:</i>	\$	\$	\$
Operating activities	(249)	151	(400)
Investing activities	(246)	(672)	426
Financing activities	(300)	(353)	53

### Cash

As at December 31, 2017, the Company was had a bank indebtedness balance of \$(1,119,642) an increase in indebtedness of \$795,076 from March 31, 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### Working Capital

Working capital represents current assets less current liabilities. As at December 31, 2017, the Company had positive working capital of \$10,290 compared to a negative working capital of \$(1,871,810) at March 31, 2017 after the bank debt was reclassified as a current liability due to a breach of bank covenants. The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities and debt service ratios). The Company was in breach of the current ratio covenant as at December 31, 2017. At March 31, 2017 the Company was in breach of the debt servicing ratio and current ratio covenants to which the bank has provided forbearance until April 30, 2018. IFRS requires that a financial liability be classified as current even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. The Company's working capital without this reclassification of current bank debt is \$718,262 and \$(808,741) as at December 31, 2017 and March 31, 2017 respectively.

### Cash (used in) provided by Operating activities

Cash used in operating activities for the nine months ending December 31, 2017 was \$249,344 representing an increase of \$400,521 from cash provided of \$151,177 for the respective period during fiscal 2017. Cash used in operating activities in the first nine months of fiscal 2018 was primarily the result of increased trade receivables, decreased trade payables offset by increased deferred revenue.

### Cash (used in) Investing activities

Cash used in investing activities for the first nine months of fiscal 2018 was \$(245,510) representing a decrease of \$426,371 from cash used in investing activities of \$(671,882) in the respective period during fiscal 2017. The increase in cash used during the nine months of fiscal 2017 was primarily due to the payments to acquire capital.

### Cash (used) in financing activities

Cash (used) by financing activities for the first nine months of fiscal 2018 was \$(300,222) representing a decrease of \$52,489 from cash used of \$(352,711) in the respective period during fiscal 2017. Cash from financing activities during the first nine months of fiscal 2018 relates primarily to debt repayment.

### Outlook – Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at December 31, 2017, the Company had an accumulated deficit of \$3,458,891 and, for the period then ended, the Company had comprehensive earnings of \$1,746,353. As at December 31, 2017, the Company had working capital of \$10,290 and \$NIL cash on hand. These material uncertainties may cast doubt upon the Company's ability to continue as a going concern. However, due to the recent improvement in the financial performance of the Company, management is reviewing whether the going concern note remains appropriate and whether it should be removed from future statements.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the next twelve month period following December 31, 2017. The Company has in place a credit facility of up to \$2,100,000 through its bank based on acceptable trade receivables and inventory. The availability of the credit facility to the Company as at December 31, 2017 was \$2,100,000 of which \$360,292 was in use and a letter of credit in the amount of US\$287,200 (CAD\$360,292) leaving \$1,739,708 available. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed, and their

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months. However, should (i) the Company's bank credit facility fail to be available or fail to have sufficient availability to meet the Company's cash requirements; (ii) forecasts fall short of expectations in one or more of the Company's divisions; and/or (iii) any unanticipated unprofitable event occurs, this will impact the Company's ability to generate sufficient cash to meet its requirements and this will impact its ability to continue as a going concern. The Company would then implement a strategic review of its portfolio of companies to maximize shareholders value.

### Facilities

The Company leases a 135,500 sq. /ft. building at 10 Didak Drive in Arnprior, Ontario.

The Company along with its wholly-owned US subsidiary owns a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA.

The Company, through a wholly-owned subsidiary owns a 33,000 sq. ft. manufacturing facility in Barry's Bay, ON for the manufacturing of its Madawaska Door business.

### Due to Related Parties

	December 31, 2017	March 31, 2017
	\$	\$
Due to senior officers	4,330,590	4,450,665
Dividends payable	60,000	60,000
Due to Targa Group Inc., convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	747,073	228,616
Due to Targa Group Inc., demand loan	66,581	66,581
Due to Targa Group Inc., line of credit	532,763	646,763
Due to Targa Group Inc., demand loan interest	134,812	134,812
	<b>6,119,491</b>	5,835,109
Less: current portion	<b>554,447</b>	-
	<b>5,565,044</b>	5,835,109

As at December 31, 2017, a balance of \$4,330,590 (\$3,094,956 principal and \$1,235,634 interest) – (March 31, 2017 - \$4,450,665) remained owing to senior officers of the Company. On April 1, 2016, senior officers agreed to cancel their current consulting agreements and discontinue interest payments accruing on balances as of April 1, 2016. During the nine months ended December 31, 2017 a total of \$120,075 has been paid to the senior officers. Balances are classified as long-term as the parties have agreed not to demand repayment before March 2019.

On July 14, 2011, the board of directors of the Company declared a cash dividend of \$10.91405 per Class A preferred share (\$200,000 in the aggregate) payable on July 22, 2011 to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred share. An amount of \$60,000 (March 31, 2017 - \$60,000) of the

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

dividend remains outstanding as of December 31, 2017. The balance is classified as long-term as the related party has agreed not to demand payment before March 2019.

As at December 31, 2017, a balance of \$247,672 (March 31, 2017 - \$247,672) of the due to related parties is convertible into common shares of the Company at a rate of \$0.0115 at the option of Targa). The balance is classified as long-term as the related party has agreed not to demand payment before March 2019.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to \$174,974 (March 31, 2017 - \$174,974). The Company accepted partial financing in the form of a note payable in the amount of \$373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at December 31, 2017 a balance of \$254,767 remains outstanding. Loans totaling \$420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014 with the acquisition of Spotton Corp by the Company. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest was at bank prime plus 2% and accrued on the principal balance for a balance of \$182,889 as of December 31, 2017 (March 31, 2017 - \$182,889). The party has agreed not to demand repayment of the total balance of \$192,626 (March 31, 2016 - \$228,616) before March 2019 and the amount is classified as long-term.

On May 31, 2017, Tidal refinanced it's approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintiff has guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. The loan to the Company has a one (1) year term and bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity.

The Company has a demand loan of up to \$1,800,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. At December 31, 2017 \$NIL, (March 31 2016 - \$NIL) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2017 - \$66,581) for a balance of \$66,581 (March 31, 2017 - \$66,581). The balance is classified as long-term as the related party has agreed not to demand payment before March 2019.

The Company has a revolving Line of Credit of up to \$1,000,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. At December 31, 2017, \$290,165 (March 31, 2017 - \$408,165) remained outstanding on the Line of Credit with accumulated interest of \$242,598 (March 31, 2017 - \$242,598) for a balance of \$532,763 (March 31, 2017 - \$646,763). Targa has agreed that it will not demand repayment before March 2019 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2017 - \$134,812), on a loan from Targa remains outstanding as of September 30, 2017. The party has agreed not to demand repayment before March 2019 and, accordingly, the amount is classified as long-term.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these condensed consolidated interim, financial statements are unchanged from those disclosed in the Company's 2017 annual consolidated financial statements and have been applied to the periods presented in these condensed consolidated interim financial statements.

#### *New and revised IFRS in issue but not yet effective*

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

#### *New Standards effective April 2018*

##### *IFRS 9: Financial instruments*

Issued in July 2014, IFRS 9 replaces IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and based on its assessment to date Management is of the view that the implementation of this standard will have no significant impact.

##### *IFRS 15: Revenue from contracts with customers*

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Adoption of this IFRS is mandatory for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and Management's preliminary assessment indicates only modest increases in unbilled revenues and product revenue due to the standard resulting in no change after adoption of IFRS 15, to the Company's largest contributor's revenue and cash flows current reporting.

##### *IFRS 16: Leases*

Issued in January 2016, IFRS 16 Introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and Management's preliminary assessment is that the implementation of the standard will have no significant impact.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### Summary of Outstanding Share Data

As at February 14, 2018 the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: \* 18,325

\* The Class A Preferred shares provide an 8% cumulative dividend based on a value of \$1,000 per share, are redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends and they are non-voting.

Convertible Debentures:\*\* \$nil principal value

\*\* The Company has issued various tranches of convertible debentures to related parties for total outstanding value at March 31, 2017 of \$247,672 in accrued interest only. Interest is convertible in cash only.

Options:\*\*\* None

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.plaintree.com](http://www.plaintree.com).